NCUA REQUEST FOR INFORMATION

1. Should part 715 require, in addition to a financial statement audit, an "attestation on internal controls" over financial reporting above a certain minimum asset size threshold? Explain why or why not

The Supervisory Committee recommends that part 715, include an "attestation on internal controls" that would apply to all credit unions.

2. What minimum asset size threshold would be appropriate for requiring, in addition to a financial statement audit, an "attestation on internal controls" over financial reporting, given the additional burden on management and its external auditor? Explain the reasons for the threshold you favor.

We recommend that there be no minimum asset size and it should apply to all credit unions.

3. Should the minimum asset size threshold for requiring an "attestation on internal controls" over financial reporting be the same for natural person credit unions and corporate credit unions? Explain why.

Our recommendation is that a Corporate Credit Union should have an outside audit, including internal controls, every year regardless of its asset size or length of operation.

4. Should management's assessments of the effectiveness of internal controls and the attestation by its external auditor cover all financial reporting, (i.e., financial statements prepared in accordance with GAAP and those prepared for regulatory reporting purposes), or should it be more narrowly framed to cover only certain types of financial reporting? If so, which types?

We recommend that it cover all financial reporting and should be consistent.

5. Should the same auditor be permitted to perform both the financial statement audit and the "attestation on internal controls" over financial reporting, or should a credit union be allowed to engage one auditor to perform the financial statement audit and another to perform the "attestation on internal controls?" Explain the reasons for your answer**.**

We suggest that a credit union should be permitted to choose either the same auditor or separate auditors for these functions. Either way and most importantly, the auditor must be independent. Sometimes there could be a cost benefit to doing it one way or the other.

6. If an "attestation on internal controls" were required of credit unions, should it be required annually or less frequently?

In our opinion, an attestation on internal controls should be required at least once every 3 years. An internal control audit could be done annually, at the discretion of the Board and Supervisory Committee. Why? **A credit union that is not undergoing a lot of change or growth could easily go**

3 years between internal control audits, whereas others that are growing or changing rapidly might want to have annual internal control audits.

7. If an "attestation on internal controls" were required of credit unions, when should the requirement become effective (i.e., in the fiscal period beginning after December 15 of what year)?

Supervisory Committee recommendation is that it begin immediately, 2006

8. If credit unions were required to obtain an "attestation on internal controls," should part 715 require that those attestations, whether for a natural person or corporate credit union, adhere to the PCAOB's AS 2 standard that applies to public companies, or to the AICPA's revised AT 501 standard that applies to non-public companies? Please explain your preference.

Our committee suggests that because the AICPA is the Source for all audit criteria for public companies, credit unions should operate along similar standards set for non-profit companies as they do for publicly-held companies, in terms of exposure.

9. Should NCUA mandate COSO's *Internal Control - Integrated Framework* as the standard all credit union management must follow when establishing, maintaining and assessing the effectiveness of the internal control structure and procedures, or should each credit union have the option to choose its own?

We suggest that AICPA's revised AT501 should be used as the one standard for all such audit reviews.

10. Should Supervisory Committee members of credit unions above a certain minimum asset size threshold be required to have a minimum level of experience or expertise in credit union, banking or other financial matters? If so, what criteria should they be required to meet and what should the minimum asset size threshold be?

Committee Members should not be required to have a minimum level of experience or expertise in credit union, banking or other financial matters. If we do not pay Committee Members for their service, we cannot require minimum levels of experience/expertise. However, Committee members need to demonstrate continual growth and/or be required to take continuing education credits.

11. Should Supervisory Committee members of credit unions above a certain minimum asset size threshold be required to have access to their own outside counsel? If so, at what minimum asset size threshold?

Our feeling is; regardless of asset size, every Supervisory Committee should have the right to request funding from the Board of Directors for use of an outside council.

12. Should Supervisory Committee members of credit unions above a certain minimum asset size threshold be prohibited from being associated with any large customer of the credit union other than its sponsor? If so, at what minimum asset size threshold?

Our response is No.

13. If any of the qualifications addressed in questions 10, 11 and 12 above were required of Supervisory Committee members, would credit unions have difficulty in recruiting and retaining competent individuals to serve in sufficient numbers? If so, describe the obstacles associated with each.

The Supervisory Committee does not foresee this as a problem for our credit union.

14. Should a State-licensed, compensated auditor who performs a financial statement audit and/or internal control attestation" be required to meet just the AICPA's "independence" standards, or should they be required to also meet SEC's "independence" requirements and interpretations? If not both, why not?

If an auditor meets the AICPA's standards, that should be good enough. After all, audit firms cannot invest in, or own part of, a credit union.

15. Is there value in retaining the "balance sheet audit" in existing [section] 715.7 (a) as an audit option for credit unions with less than $500 million in assets?

No. We do not believe it is a valid option at any asset size.

16. Is there value in retaining the "*Supervisory Committee Guide* audit" in existing [section] 715.7 (c) as an audit option for credit unions with less that $500 million in assets?

No

17. Should part 715 require credit unions that obtain a financial statement audit and/or an "attestation on internal controls" (whether as required or voluntarily) to forward a copy of the auditor's report to NCUA? If so, how soon after the audit period-end? If not, why not?

The Supervisory Committee is in favor of a third party audit. We see no reason to require an audit to be forwarded to NCUA automatically. We would hate to see NCUA offices become cluttered up with 8,000+ audits on a mandatory basis. We believe NCUA already has the authority to request a copy of the most recent audit if they deem it necessary. NCUA might require that a copy of the audit be forwarded to NCUA, if the audit contains "material and significant" findings. Those audits should be forwarded to NCUA within 60 days of receiving the audit findings in the credit union.

18. Should part 715 require credit unions to provide NCUA with a copy of any management letter, qualification, or other report issued by its external auditor in connection with services provided to the credit union? If so, how soon after the credit union receives it? If not, why not?

While such documents are always subject to NCUA scrutiny, if requested, why would we be required to send a copy to NCUA? When will the examiners have time to read it? Again, we believe that if anything is required to go to NCUA, it should only be audits or attestations of internal controls that contain material findings. In the above situation, the management letter should be sent within 90 days.

19. If credit unions were required to forward external auditors' reports to NCUA, should part 715 require the auditor to review those reports with the Supervisory Committee before forwarding them to NCUA?

The Supervisory Committee should be required to review those reports before forwarding the results to NCUA. That's why we call them "Supervisory Committee Audits" even if they are conducted by an outside party.

20. Existing part 715 requires a credit unions' engagement letter to prescribe a target date of 120 days after the audit period-end for delivery of the audit report. Should this period be extended or shortened? What sanctions should be imposed against a credit union that fails to include the target delivery date within its engagement letter?

The period of 120 days as it currently exists is adequate. Failure to include the target date in the engagement letter should be noted. If it is not included in the engagement letter, it should be noted in the Examination Findings with recommendation to correct it in the next audit.

21. Should part 715 require credit unions to notify NCUA in writing when they enter into an engagement with an auditor, and/or when an engagement ceases by reason of the auditor's dismissal or resignation? If so in cases of dismissal or resignation, should the credit union be required to include reasons for the dismissal or resignation?

No. The Supervisory Committee should answer to the Board for these matters and exceptions should be so noted by Examiners or auditors. The NCUA should not be the "shadow manager" of a credit union or a Supervisory Committee.

22. NCUA recently joined in the final *Interagency Advisory on the Unsafe and Unsound Use of Limitation of Liability Provisions in External Audit Engagement Letters*, 71 FR 6847 (Feb. 9, 2006). Should credit union Supervisory Committees be prohibited by regulation from executing engagement letters that contain language limiting various forms of auditor liability to the credit union? Should Supervisory Committees be prohibited from waiving the auditor's punitive damages liability?

No. This issue is difficult to mandate with regulations. It would be helpful if NCUA would set the guidelines.